

November 10, 2001

**To:** Senator Sid Snyder, Chair  
Senator Dan McDonald  
Representative Jack Cairnes  
Representative Jeff Morris  
Fred Kiga, Director, Department of Revenue  
Marty Brown Director, OFM

**From:** Change Mook Sohn, Executive Director  
Office of the Forecast Council

**Subject:** NOVEMBER 10, 2001 REVENUE COLLECTION REPORT

General Fund-State collections were \$53.4 million below the September forecast in the October 11 - November 10 collection period. Most of this month's shortfall is due to much weaker than expected Revenue Act (retail sales, business and occupation, use, public utility and tobacco products taxes) tax payments, although most other major taxes were also below the estimate for the month. The shortfall this month increases the cumulative shortfall since the September forecast to \$67.1 million. The less than expected collections this month reflect both the economic disruption following the terrorist attacks of September 11<sup>th</sup> and the underlying weakness of the economy that was present prior to September 11th.

Collections this month primarily reflect September activity of monthly taxpayers and third quarter activity of quarterly filers. The weakness this month is no doubt partly attributable to the tragedy on September 11<sup>th</sup> and its aftermath. Business activity slowed and in some cases stopped completely in the days following the attacks. Some of the disruption was of a one-time nature and some is likely on going. Air travel ground to a halt as airports were closed for several days in the wake of the attacks. Stores and shopping malls closed as people chose to watch events unfold on TV rather than shop. While some of the foregone shopping may have been recouped at a later time, the loss of jobs and confidence due to the tragedy will be more enduring and more of a problem for the economy.

For the month, Revenue Act collections were 8.0 percent below the year-ago level. Adjusting for special factors (the reporting frequency of more than 20,000 taxpayers was changed from quarterly to monthly) the decline was 7.0 percent. This is the largest decline since the early 1980's. Last month Revenue Act collections declined 1.4 percent. Revenue Act tax payments have now been below the year-ago level, three of the last five months. For the third quarter as a whole, tax payments were 2.4 percent below the year-ago level. This is well below the already weak 1.3 percent increase in the second quarter. Revenue Act payments increased 2.7 percent in the first quarter of 2001 and 5.4 percent in the last quarter of 2000. While, the events of September 11<sup>th</sup> clearly exacerbated this month's decline in tax payments, the economy was already slowing more than expected prior to September 11th and collections would have likely

declined some even without the terrorist attacks. Nationally, the economy lost more than 250,000 jobs between March 2001 and August 2001 including 54,000 jobs in August alone. In September, the economy lost an additional 213,000 jobs (some before and some after September 11<sup>th</sup>). The tragedy of September 11th clearly accelerated the pace of reductions, with the economy shedding 415,000 in October, the largest monthly decline in employment since 1980. At the state level, wage and salary employment declined unexpectedly in the second quarter for the first time since 1993. Employment continued to decline in July, August, September and October.

Analysis of preliminary tax payments data of the state's largest taxpayers in the October 11 - November 10 collection period showed a significant decline in nearly all sectors of the economy. Double-digit declines were reported by the construction, wholesale trade, finance, insurance and real estate and hotel/motel sectors. Although information is incomplete, preliminary data indicate that tax payments by hotels and motels were 22 percent less than a year-ago, the largest decline for any 2-digit Standard Industrial Category (SIC). Much of this decline was likely due to the event of September 11<sup>th</sup> and its aftermath. The retail trade sector, which accounts for about half of all tax payments reported payments 3.1 percent below the year-ago level. Within retail trade sector, auto dealers reported a 7.1 percent drop in tax payments and furniture and appliance stores reported a decline of 8.3 percent. There were two retailing sectors that reported an increase in tax payments: food stores (up 2.8 percent) and building material/hardware stores (up 5.7 percent)

Other General Fund taxes collected by the Department of Revenue were \$5.0 million below the estimate for the month. Cumulatively, these taxes are now \$8.1 million below the September forecast. For the month the largest shortfalls were from property tax payments (state levy) which were \$2.8 million less than expected and from real estate excise tax collections which were \$2.4 million below the estimate. Property tax payments are very volatile on a monthly basis and less than expected payments this month is unlikely to significantly affect the estimate for the biennium. Real estate activity slowed in September. September activity, which reflects closings in the month of September, and payments to the state in October, were 3.6 percent lower than a year ago. This is the first monthly decline since May. Activity for the first nine months of the year is up 3.1 percent. Lower mortgage rates have until this month enabled real estate activity to grow modestly in most areas of the state. A notable exception is King County. Taxable real estate excise activity in King County was down 7.1 percent for the month and is down 7.2 percent for the year-to-date. Excluding King County, activity was down only 0.1 percent from the month and is up 11.8 percent for the year-to-date.

The Department of Licensing GFS collections were \$10,000 below the forecast in October. For the year-to-date Department of Licensing collections are \$81,000 less than expected.

The attached table 1 provides a comparison of collections with estimates for the current mid-month period, October 11 - November 10, and cumulatively since our last forecast. Table 2 compares revised collection figures to the preliminary numbers reported in last month's mid-month report.

**TABLE 1**  
**Revenue Collection Report**  
**November 10, 2001 Collections Compared to the September 2001 Forecast**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Estimate*</u>	<u>Actual</u>	<u>Amount</u>	<u>Difference</u> <u>Percent</u>
<b>October 11 - November 10, 2001</b>				
Department of Revenue-Total	\$900,077	\$846,712	(\$53,365)	-5.9%
Revenue Act** (1)	795,406	747,024	(48,382)	-6.1%
Non-Revenue Act(2)	104,671	99,688	(4,983)	-4.8%
Liquor Sales/Liter	7,096	6,787	(310)	-4.4%
Cigarette	5,609	5,508	(101)	-1.8%
Property (State School Levy)- net after transfer	33,742	30,872	(2,870)	-8.5%
Property tax collections	33,742	30,872	(2,870)	-8.5%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	8,787	8,365	(422)	-4.8%
Real Estate Excise	34,467	31,973	(2,494)	-7.2%
Timber (state share)	0	0	0	NA
Other	14,970	16,183	1,214	8.1%
Department of Licensing (2)	725	715	(10)	-1.4%
<b>Total General Fund-State***</b>	<b>\$900,802</b>	<b>\$847,426</b>	<b>(\$53,376)</b>	<b>-5.9%</b>
<b>Cumulative Variance Since the September Forecast (September 11 - November 10, 2001)3</b>				
Department of Revenue-Total	\$1,627,243	\$1,560,179	(67,064)	-4.1%
Revenue Act** (3)	1,449,501	1,390,584	(58,917)	-4.1%
Non-Revenue Act(4)	177,742	169,595	(8,147)	-4.6%
Liquor Sales/Liter	14,489	14,805	316	2.2%
Cigarette	11,555	11,170	(385)	-3.3%
Property (State School Levy)-net after transfer	40,371	39,396	(975)	-2.4%
Property tax collections	40,371	39,396	(975)	-2.4%
transfer to the Student Achievement Acct.	0	0	0	NA
Estate	16,799	12,531	(4,268)	-25.4%
Real Estate Excise	74,530	72,930	(1,601)	-2.1%
Timber (state share)	0	0	0	NA
Other	19,998	18,764	(1,235)	-6.2%
Department of Licensing (4)	1,536	1,455	(81)	-5.3%
Lottery (5)	0	0	0	NA
<b>Total General Fund-State***</b>	<b>\$1,628,779</b>	<b>\$1,561,634</b>	<b>(\$67,145)</b>	<b>-4.1%</b>

1 Collections October 11 - November 10, 2001. Collections primarily reflect September 2001 activity of monthly taxpayers and July-September activity of quarterly filers.

2 October 1-30, 2001 collections.

3 Cumulative collections, estimates and variance since the September 2001 forecast; (September 11- November 10, 2001) and revisions to history.

4 Cumulative collections, estimates and variance since the September 2001 forecast;( September & October 2001) and revisions to history.)

5 As of 7/1/01 lottery transfers are no longer part of the General Fund.

\* Based on the September 2001 economic and revenue forecast.

\*\*The Revenue Act consists of the retail sales, B&O, use, public utility, tobacco products taxes, and penalty and interest.

\*\*\* Detail may not add due to rounding. The General Fund-State total in this report includes only collections from larger state agencies: the Department of Revenue, the Department of Licensing and the Lottery Commission (util July 2001), about 97% of total General Fund-State.

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**TABLE 2**  
**October 10, 2001 Collection Report - Revised Data**  
**Thousands of Dollars**

<u>Period/Source</u>	<u>Collections</u>		<u>Difference</u>	
	<u>Preliminary</u>	<u>Revised</u>	<u>Amount</u>	<u>Percent</u>
<b>September 11 - October 10, 2001</b>				
Department of Revenue-Total	\$713,467	\$713,467	\$0	0.0%
Revenue Act (1)	643,560	643,560	(0)	-0.0%
Non-Revenue Act(2)	69,908	69,908	(0)	-0.0%
Liquor Sales/Liter	8,019	8,019	(0)	-0.0%
Cigarette	5,662	5,662	(0)	-0.0%
Property (State School Levy)	8,524	8,524	0	0.0%
Property tax collections	8,524	8,524	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	ERR
Estate	4,166	4,166	0	0.0%
Real Estate Excise	40,957	40,957	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	2,580	2,580	0	0.0%
Department of Licensing (2)	741	741	(0)	-0.1%
Lottery (2)	0	0	0	NA
Total General Fund-State***	\$714,208	\$714,208	(\$0)	-0.0%

**Cumulative Receipts: September 11 - October 10, 2001 & Revisions to History**

Department of Revenue-Total	713,467	\$713,467	\$0	0.0%
Revenue Act (3)	643,560	643,560	(0)	-0.0%
Non-Revenue Act(4)	69,908	69,908	(0)	-0.0%
Liquor Sales/Liter	8,019	8,019	(0)	-0.0%
Cigarette	5,662	5,662	(0)	-0.0%
Property (State School Levy)-net after transfer	8,524	8,524	0	0.0%
Property tax collections	8,524	8,524	0	0.0%
transfer to the Student Achievement Acct.	0	0	0	ERR
Estate	4,166	4,166	0	0.0%
Real Estate Excise	40,957	40,957	(0)	-0.0%
Timber (state share)	0	0	0	NA
Other	2,580	2,580	0	0.0%
Department of Licensing (4)	741	741	(0)	-0.1%
Lottery (4)	0	0	0	ERR
<b>Total General Fund-State***</b>	<b>\$714,208</b>	<b>\$714,208</b>	<b>\$0</b>	<b>0.0%</b>

P-Preliminary. Reported in the October 10, 2001 collection report.

R Revised data.

1 Collections September 11 - October 10, 2001. Collections primarily reflect August 2001 business activity of monthly taxpayers.

2 September 1-30, 2001 collections.

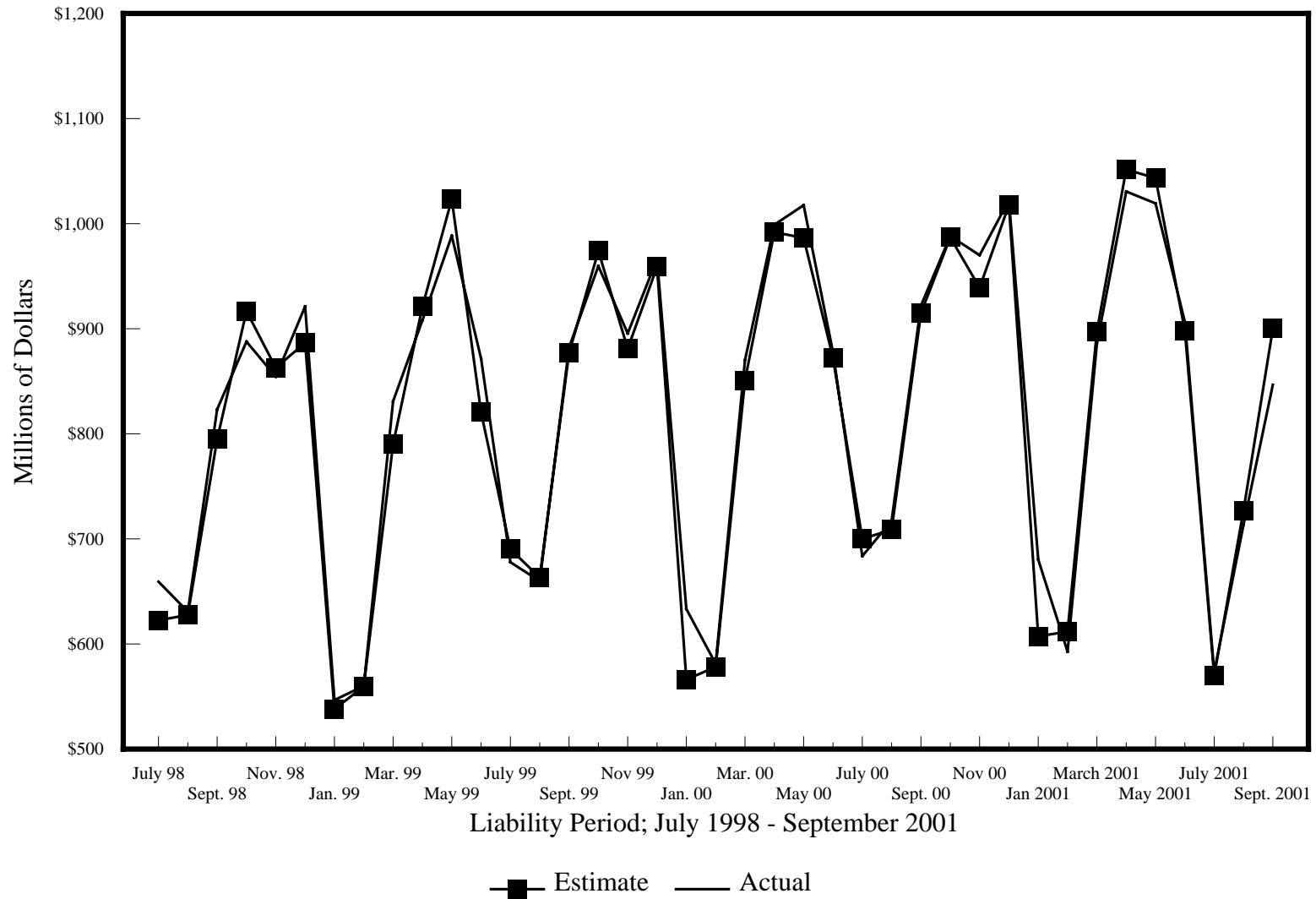
3 Cumulative variance for since the September 2001 forecast: September 11 - October 10,2001 & revisions to history.

4 Cumulative variance: since the September 2001 forecast (September 2001 ) & revisions to history.

\* Revenue consists of the retail sales, B&O, use, public utility and tobacco products taxes, and penalty and interest payments for these taxes.

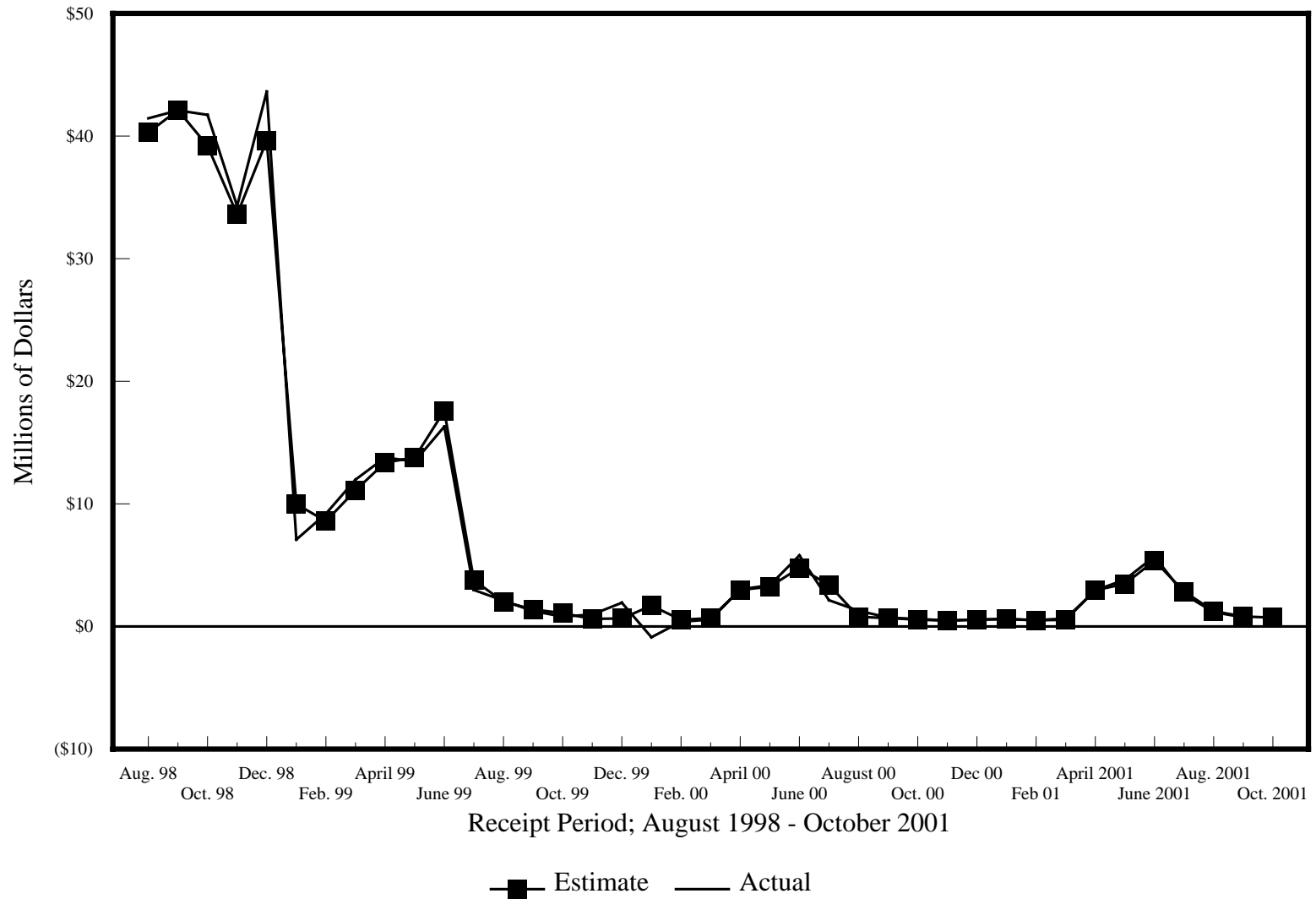
# Department of Revenue: General Fund-State, Actual vs. Estimate

July 98 to September 2001



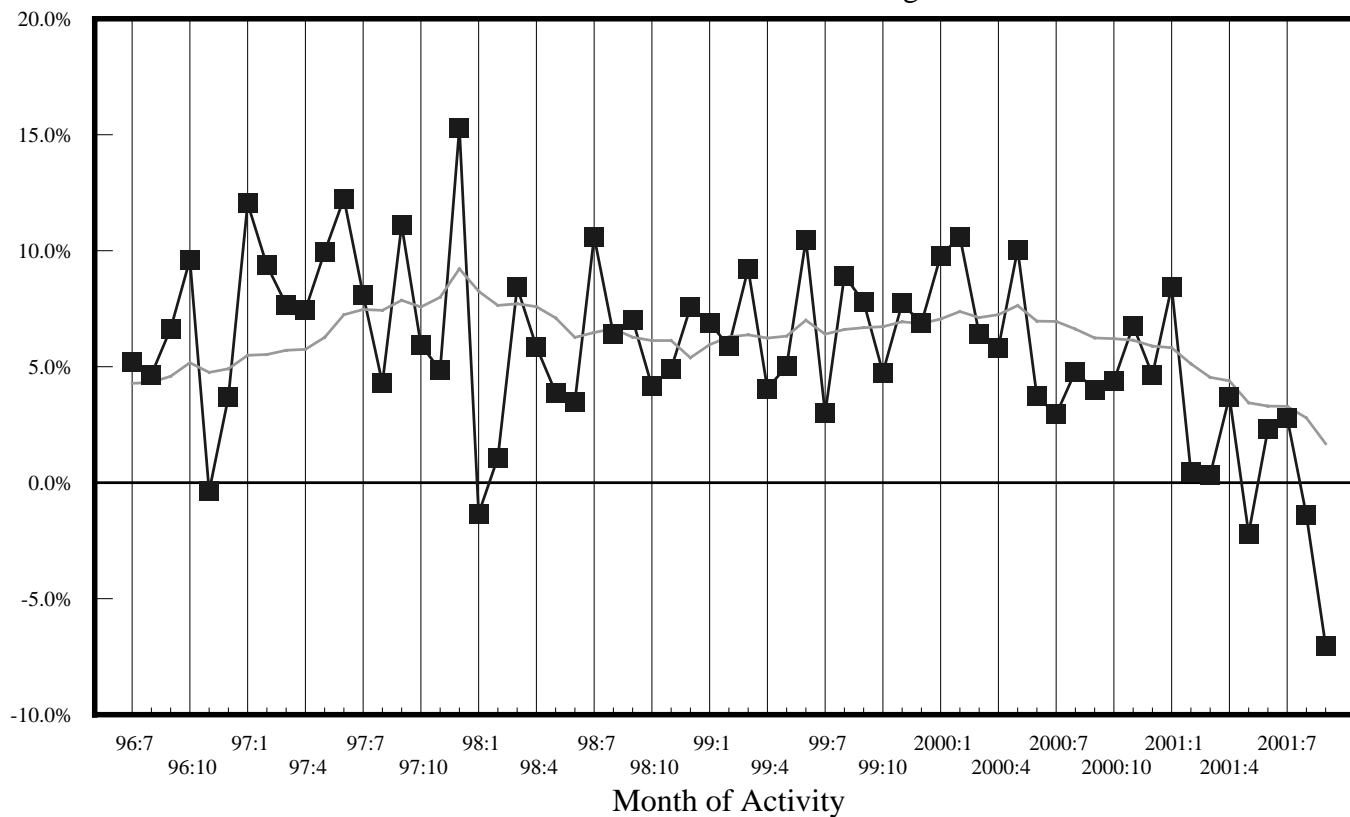
# Department of Licensing General Fund-State, Actual vs. Estimate

August 98 to October 2001



# Revenue Act Net Collections\*

Year-over-Year Percent Change



■ %CH from year-ago month

— %change: 12 month moving average

\*Adjusted for legislation, large refunds & audits, etc.